



Police Pension News

A Hollywood Police Officers' Retirement System Publication

Issue 52

Date of Issue:

First Quarter 2015

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PONDER THIS!



**REMEMBER,
YOU CAN NEVER
OUTLIVE YOUR
DEFINED
RETIREMENT
BENEFIT**

PENSION FUND INVESTMENT SUMMARY

For the fiscal year ending September 30, 2014, the portfolio returned 9.92% on a net basis.

On December 31, 2014 our fund had a total market value of \$267,338,000. For the quarter the fund gained \$8,511,000.

For the quarter the total fund return was 3.33% (net) and its benchmark return was 3.64%.

For the quarter the stock return was 5.17% and the benchmark return was 5.79%. The bond return was 1.10% and the benchmark return was 1.34%.

For the quarter the average allocation of our fund was 53.19% invested in stocks, 6.30% invested in real estate, 38.35% in bonds and 2.16% in cash equivalents (i.e., short term liquid interest bearing investments including money market funds and Israeli bonds). Our ongoing target for investment in stocks is 50% of the total fund.

Fiscal Year to Date (10/1/2014 – 12/31/2014)

For the fiscal year to date the Inverness large cap stock return was 3.71%, the Garcia Hamilton & Associates growth stock return was 5.57%, the Buckhead value stock return was 2.90%, the Eagle small cap stock return was 8.35% and the Rhumblin mid-cap stock index return was 6.29%. The S&P 500 index return was 4.93%.

For the fiscal year the American Realty Advisors real estate return was 1.54% and the Intercontinental Real Estate Corp. real estate return was 3.79%. The NCREIF real estate index return was 3.04%.

Calendar Year to Date (1/1/2014 – 12/31/2014)

For the calendar year to date the total fund return was 7.94% (net). The stock return was 11.22% and the benchmark return was 11.80%. The bond return was 4.30% and the benchmark return was 4.51%.

For the last year the best performing sector among S&P 500 stocks was Utilities which increased 24.29% and the worst sector was Energy which

decreased 9.99%.

Among the major economic indicators, the Consumer Price Index (CPI-Urban) increased 0.8% before seasonal adjustment for the twelve months ended in December.

The Producer Price Index (PPI) for finished goods advanced 1.1% before seasonal adjustment for the twelve months ended in December.

The seasonally adjusted unemployment rate was 5.6% in December down from 5.9% in September.

Real Gross Domestic Product (GDP) increased at an annual rate of 5.0% for the third quarter of 2014, compared with an increase of 4.6% in the second quarter of 2014.

During the quarter the Federal Reserve Open Market Committee kept the target range for the federal funds rate of 0.00% to 0.25%. The federal funds rate is the interest rate that banks charge each other for overnight loans.

Remember: A complete investment report is available on-line.

Total Fund Summary



Since December 31, 1992 the fund has an average rate of return of 7.69% (net) per year. For the last five years the total fund return was 9.39% (net) per year. For the last three years the total return was 11.18% and the benchmark return was 11.20%.

For the last five years the stock return was 14.44% and the bond return was 4.60%. For the last three years the stock return was 19.52% and bond return was 3.00%. For the year the stock return was 11.22% and bond return was 4.30%.

Top Ten Stocks

INVERNESS	GARCIA HAMILTON	EAGLE ASSET	BUCKHEAD	RHUMBLINE
Discover Financial	Apple Inc.	Kite Realty	Wells Fargo	Skyworks Solutions
Adobe	Walt Disney	GEO Corp.	Express Scripts	Equinix Inc.
Mylan, Inc.	Blackrock Inc.	Universal Electronics	Procter & Gamble	Advanced Auto Parts
Carlisle	Coca Cola	CDW	Johnson & Johnson	SI Green Realty
TJX Companies	CVS	Harbinger Group	GE	Henry Schein
Bank of America	Goldman Sachs	Allison Transmission	Exxon Mobil	Hanesbrands Inc.
Apple	Home Depot	Deluxe	US Bancorp	Endo International PLC
CVS	Express Scripts	Assured Guaranty	Chevron	Realty Income
McKesson Corp.	Qualcomm	West Corporation	Anthem, Inc.	Signet Jewelers
Roper Industries	Baxter International	CommScope	Pfizer	Church & Dwight

STOCK SPOTLIGHT

Health Care REIT Inc. (Ticker = HCN)

Sector: Financials

Industry: Health Care REITs

Market Capitalization: \$24.9 Billion

Health Care REIT, Inc. is a real estate investment trust. The Company's portfolio has range of seniors housing and healthcare real estate, including seniors housing communities, skilled nursing/post-acute facilities, medical office buildings, inpatient and outpatient medical centers and life science facilities. The Company operates in three segments: seniors housing triple-net, seniors housing operating and medical facilities. Its properties primarily consist of land, building, improvements and related rights. Demand for various types of senior housing and medical facilities should remain healthy in the coming years, as the elderly population is expected to increase significantly. Medical care is advancing rapidly and is becoming more widely available. HCN has been busy making investments, notably, in the U.K. which is a fast growing market. The REIT's strong balance sheet will support strategic transactions for future growth.

Hershey Company (Ticker = HSY)

Sector: Consumer Staples

Industry: Packaged Foods

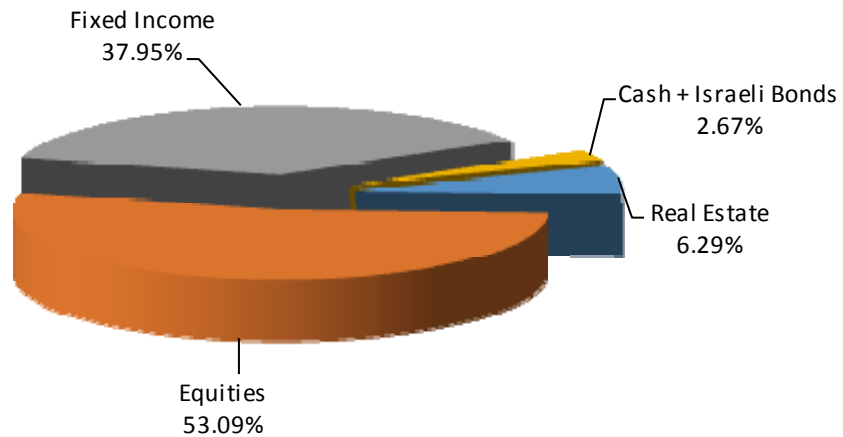
Market Capitalization: \$23.1 Billion

The Hershey Company is a producer of chocolate in North America and a provider in chocolate and sugar confectionery. The Company's principal product groups include chocolate and sugar confectionery products; pantry items, such as baking ingredients, toppings and beverages, and gum and mint refreshment products. It manufactures, markets, sells and distributes its products under more than 80 brand names. The Company markets its products in approximately 70 countries worldwide. Hershey has a dominant position in the confectionary sector with a growing pipeline. This firmly positions the Company for long term growth. Furthermore, HSY's global reach continues to expand at a healthy pace. A growing dividend and strong balance sheet are also a plus.

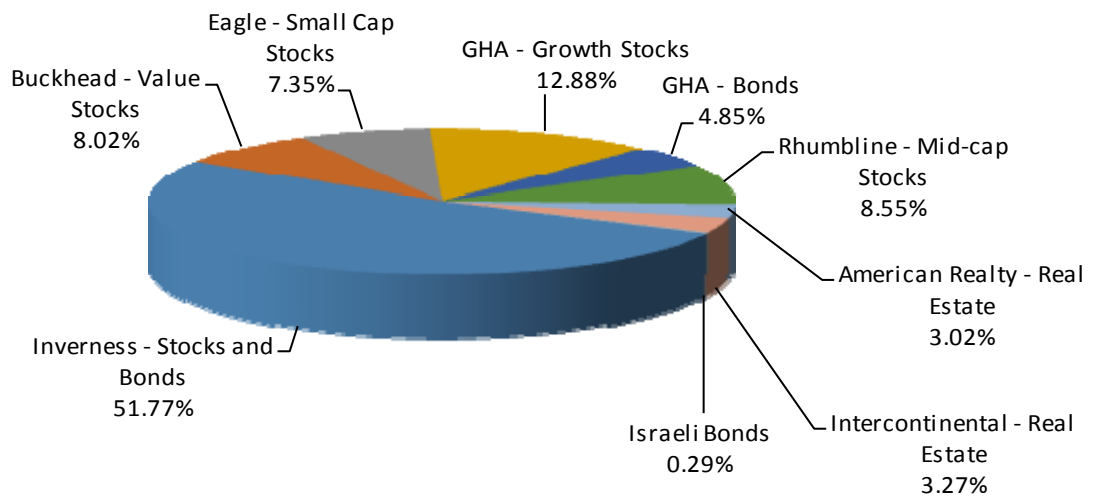
Please note that the Board of Trustees provide this data for informational purposes only. It is in no way to be interpreted as investment advice.

Track The Fund!

Your Plan's Asset Allocation December 31, 2014



Division of Assets by Investment Manager (including cash) December 31, 2014



Retiree Corner

Congratulations to our latest Retirees

Michael Moxley	10-27-2014
Greg Salidino	10-31-2014
Renna Myers	12-11-2014
Scott Pardon	01-02-2015

Active Members



Please remember to contact the Office of Retirement to discuss buying back your Academy time (HPD Only) and your probationary time.



A PARTNERSHIP OF PROFESSIONAL ASSOCIATIONS
ATTORNEYS AT LAW

MEMORANDUM

To: Board of Trustees

From: Bonni S. Jensen 

Subject: State Law Update - Senate Bill 172 and Senate Bill 242

Date: January, 2015

The Florida 2015 Legislative Session will begin on March 3rd. Two bills have been filed in the Senate which provides for changes to Florida Statutes Chapters 112, 175, and 185.

Changes to Florida Statutes §§112.63 and 112.664 - SB 242

This proposed bill will require all governmental pension plans to use the mortality table being used by the Florida Retirement System ("FRS"). Additionally, it changes the reporting requirements under SB 534 to also require reporting based upon the FRS mortality table.

Changes to Florida Statutes Chapters 175/185 - SB 172

In essence, the changes provide for the use of future Chapter money (including currently accumulated unallocated dollars) to offset municipal contributions and to establish share account plans for the members. The changes are described below.

1. 175.021 and 185.01 Legislative declaration.— Amends provisions to establish that all municipal and special district pension plans must meet required benefits and minimum standards of 175/185 to be eligible to receive a distribution of insurance premium tax revenues under the law.
2. 175.032 and 185.02 Definitions.— Amends definitions as follows:
 - a. Adds definition of "Additional premium tax revenues" which means revenues received by a municipality or special fire control district pursuant to s. 175.121 /185.10 which exceed base premium tax revenues.
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- b. Adds definition of "Base premium tax revenues" which means revenues received by a local law municipality or special fire control district in effect on October 1, 1998 pursuant to s. 175.121 /185.10 equal to the amount of such revenues received for calendar year 1997. This is the original "frozen chapter money." For a local law plan created between October 1, 1998 and March 1, 2015, "base premium tax revenues" means tax collections received in the second year of participation.
- c. For police only, eliminating the 300 hour minimum for overtime to be included in the definition of "compensation" or "salary" and providing for limitations on overtime prior to July 1, 2011 in accordance with the Plan provisions.
- d. Adds a definition of "Defined contribution plan" which means a component of a local law defined benefit plan to which deposits are made to provide benefits for firefighters and police officers. The defined benefit plan must meet the required benefits and minimum standards of the chapter.
- e. Redefines "Local law plan" to require both a defined benefit plan component and a defined contribution plan component.
- f. Adds a definition of "Minimum benefits" which means those benefits provided for in Florida Statutes 175.021-175.341 and 175.361-175.401 / 185.01-185.341 and 185.37-185.50.
- g. Adds a definition of "Minimum standards" which means standards set forth in Florida Statutes 175.021-175.401 / 185.01-185.50.
- h. Adds a definition of "Special Act Plan" which means a plan subject to provisions of Chapter 175/185, created by an act of the legislature and requires state legislative amendment.
- i. Adds a definition of "Special benefits" which means benefits provided in a defined contribution plan for firefighters/police officers.
- j. Amends definition of "Supplemental plan" to provide that any supplemental plan in existence on March 1, 2015 shall be deemed a defined contribution plan.

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3. 175.071(7)/185.06(6) General powers and duties of board of trustees is amended to provide that the actuary used by the Board must be an "enrolled" actuary as defined by the law.
4. 175.091/185.07 Creation and maintenance of fund. Provides for the funding of the Plans as follows:
 - (1) The firefighters'/police officers' pension trust fund in each municipality and in each special fire control district shall be created and maintained in the following manner:
 - (d) By payment by the municipality or other sources of a sum equal to the normal cost and the amount required to fund any actuarial deficiency shown by an actuarial valuation conducted under as provided in part VII of chapter 112 after taking into account the amounts described in paragraphs (b), (c), (e), (f), and (g) and the tax proceeds described in paragraph (a) which are used to fund defined benefit plan benefits.

Note: Paragraph (b) is member contributions; Paragraph (c) is fines and forfeitures of the members for pension fund rule violations; Paragraph (e) is gifts, bequests, and devises donated to the fund; Paragraph (f) is "accretions" to the fund by way of interest or dividends; Paragraph (g) is all other sources.
5. 175.162/185.16 deletes requirement for incremental funding of minimum benefits and adds a 2.75% multiplier as a minimum benefit. If the plan does not have a 2.75% multiplier, then the multiplier does not have to be increased to that level, but the current multiplier cannot be reduced. Additionally, if the multiplier is increased to 2.75% or higher, then the multiplier cannot later be reduced below the 2.75%. This section is effective July 1, 2015.
6. 175.351/185.35 Municipalities and special fire control districts having their own pension plans for firefighters. The new language:
 - Clarifies that if the municipality/special district meets the minimum benefits and minimum standards, it is entitled to participate in the shares of the 175/185 money.
 - Explains how the 175/185 dollars are to be allocated, for non-collectively bargained plans, effective October 1, 2015 or for collectively bargained plans, effective upon the entry into a collective bargaining agreement on or

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after July 1, 2015.

- the premium tax income must be placed into the plan as an integral part to fund benefits exclusively for firefighters/police officers.
- base premium tax revenues (see definitions section) are to be used to fund minimum benefits or agreed benefits in excess of minimum.
- Premium tax revenues in excess of that received in calendar year 2012 will be used:
 - 50% used to fund minimum benefits (will offset employer contributions); and
 - 50% to fund defined contribution plan special benefits.
- Additional premium tax revenues not already allocated are to be used to fund benefits not included in the minimum benefits. This language seems to refer to increases in premium tax dollars received between 1997 and 2013 which are to be allocated to benefits passed after March 12, 1999. If these revenues exceed the full annual cost of the benefits in excess of the minimum benefits, then the excess is to be used 50% to offset employer costs and 50% for defined contribution plan special benefits.
- Any accumulations of premium tax dollars which have not been applied to benefits in excess of the minimums must be allocated 50% to offset unfunded and 50% to special benefits. Once the unfunded is paid, then all excess accumulations go to special benefits.
- Plans created after March 1, 2015 must use up to 50% to fund the defined benefit components of the new plan and the remainder is to be used for special benefits.
- Benefits offered in excess of minimum benefits may be reduced if the plan meets the minimum benefits and minimum standards (including the 2.75% multiplier), except that no supplemental benefits in effect on September 30, 2014 may be reduced. The premium tax dollars that had been used to fund the now reduced benefit improvements are to be allocated like the post calendar year 2013 premium taxes.
- Notwithstanding any of the allocation scheme, the parties (the Union or a majority of the firefighters/police officers and the municipality or special fire control district) may agree to their own allocation scheme, including accumulated additional premium tax revenues, provided the plan continues to meet the minimum benefits and minimum standards of the law.
 - If minimums are not met, the benefits do not have to be improved for the benefits in place on October 1, 2012, but they cannot be decreased.
 - Special act or supplemental plans are considered to have agreed to such a deviation as of July 1, 2015 regarding the existing

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- arrangement for the use of the premium taxes.
 - Definition of "Additional Premium Tax Revenue" and "Extra Benefits" are deleted.
 - Definition of "Supplemental Plans" is maintained as are the exceptions for the definition of salary or compensation and the board make up.
 - Requires creation of the defined contribution plan component by October 1, 2015 for local plans or upon entering into a collective bargaining agreement after July 1, 2015.
 - A municipality or special district that has implemented or proposed changes based on reliance on a "Naples letter" after August 14, 2012 but before March 4, 2015 may continue with such changes. "Reliance" must be evidenced by formal correspondence between the municipality/special district and the department which describes the specific changes to the local law plan dated before March 4, 2015. These changes which are contrary to Chapters 175/185 can remain in effect until the earlier of October 1, 2018 or the effective date of the next collective bargaining agreement.
7. The Legislature finds that a proper and legitimate state purpose is served when employees and retirees of this state and its political subdivisions, and the dependents, survivors, and beneficiaries of such employees and retirees, are extended the basic protections afforded by governmental retirement systems that provide fair and adequate benefits and that are managed, administered, and funded in an actuarially sound manner as required under s. 14, Article X of the State Constitution and part VII of chapter 112, Florida Statutes. Therefore, the Legislature determines and declares that this act fulfills an important state interest.
8. A July 1, 2015 effective date is proposed.

The bills will continue to be monitored and the status will be reported.

The Board would like to thank Mrs. Jensen for this legal update

CHALLENGES FOR REFORMING GOVERNMENT PENSIONS

The Urban Institute has released a research report entitled “Reforming Government Pensions to Better Distribute



Benefits.” Efforts to reform the retirement plans provided to state and local government employees are gaining momentum across the country. From 2009 to 2011, 43 states significantly revised their state retirement plans. Ten states made major structural changes to their plans in 2012. More recent reforms have passed in such states as Kentucky, Tennessee and Illinois. These initiatives have been driven primarily by financial concerns. The 2007 financial crisis depleted much of the reserves held by many state and local plans. By their own accounting, plans had set aside enough funds in 2012 to cover only about three-quarters of their future obligations. Absent any reforms, this funding gap may force state and local governments to increase their payment to pension funds, raising pressure on government budgets and threatening to crowd out other public services

or lead to tax hikes. This report highlights promising reform options that could more fairly distribute retirement benefits across the public sector workforce, and help governments recruit and retain productive employees. The report begins by describing how traditional plans work and how they distribute benefits across the workforce. The author then identifies various reform options ~ such as extending Social Security to all government employees (many of whom are currently uncovered), changing the benefit formula in traditional retirement plans and pursuing alternative plan designs ~ that could improve the fair distribution of benefits. The final section discusses various challenges to pension reform:

States and localities can take a number of steps to improve the distribution of retirement benefits offered to public-sector employees, make retirement plans more appealing to young workers, and create better retention incentives. However, they face several obstacles. The most promising pension reforms would not improve benefits for every public-sector employee. Rather, certain government workers, especially very long-term employees and employees who begin public service relatively late in their lives, would experience benefit cuts. These groups would likely oppose such reforms. Any proposed changes to pension benefits are sometimes viewed as a subterfuge for cutting benefits, even if average benefits remain unchanged, generating further political opposition. Some reforms we have outlined would require governments to fully fund state and local retirement plans. But state and local governments may prefer the option they currently hold to defer pension funding when budgets are tight. Additionally, pension reform is complicated and does not directly affect the lives of most taxpayers. Thus, it is often difficult to galvanize public opinion around the issue and force change.

A key question for reform involves how incumbent employees would be treated. Most reforms have grandfathered existing workers, leaving their benefits unchanged and changing plan provisions only for new hires. As a result, most reforms do not have much immediate impact on plan finances. More importantly, shielding incumbent workers from any reforms creates different classes of employees, which violates norms of basic fairness and may create morale problems.

Source: Cypen.com

The Callan Periodic Table of Investment Returns

Annual Returns for Key Indices Ranked in Order of Performance (1995–2014)

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
S&P 500 Growth	S&P 500 Growth	S&P 500 Growth	S&P 500 Growth	MSCI Emerging Markets Growth	Russell 2000 Value	Russell 2000 Value	MSCI Emerging Markets Growth	MSCI Emerging Markets Growth	MSCI Emerging Markets Growth	MSCI Emerging Markets Growth	MSCI Emerging Markets Growth	MSCI Emerging Markets Growth	MSCI Emerging Markets Growth	MSCI Emerging Markets Growth	Russell 2000 Value	Barclays Agg	MSCI Emerging Markets Growth	Russell 2000 Value	S&P 500 Growth
38.13%	23.97%	36.62%	42.16%	66.42%	22.83%	14.02%	10.26%	56.29%	26.95%	34.56%	32.65%	39.79%	5.24%	79.02%	29.00%	7.84%	18.63%	43.30%	14.89%
S&P 500 Value	S&P 500 Value	S&P 500 Value	S&P 500 Value	Russell 2000 Value	Barclays Agg	Barclays Agg	Barclays Agg	Russell 2000 Value	Russell 2000 Value	MSCI Emerging Markets Growth	MSCI Emerging Markets Growth	MSCI Emerging Markets Growth	Barclays Corp High Yield	Barclays Corp High Yield	Russell 2000 Value	Russell 2000 Value	Barclays Corp High Yield	Russell 2000 Value	S&P 500 Value
37.69%	22.96%	33.98%	28.69%	43.09%	11.63%	8.43%	-1.41%	48.54%	22.26%	13.54%	26.34%	11.17%	28.16%	69.21%	28.86%	4.98%	18.05%	39.82%	13.69%
S&P 500 Growth	S&P 500 Growth	S&P 500 Growth	S&P 500 Growth	MSCI Emerging Markets Growth	Russell 2000 Value	Russell 2000 Value	MSCI Emerging Markets Growth	MSCI Emerging Markets Growth	MSCI Emerging Markets Growth	MSCI Emerging Markets Growth	MSCI Emerging Markets Growth	MSCI Emerging Markets Growth	MSCI Emerging Markets Growth	MSCI Emerging Markets Growth	Russell 2000 Value	Barclays Agg	MSCI Emerging Markets Growth	Russell 2000 Value	S&P 500 Growth
36.99%	22.00%	31.78%	20.00%	28.24%	6.09%	5.89%	4.50%	47.28%	20.28%	6.82%	23.45%	9.13%	29.92%	34.47%	24.60%	4.66%	17.66%	34.62%	12.36%
Russell 2000 Growth	Russell 2000 Value	S&P 500 Value	S&P 500 Value	MSCI EAFE	Russell 2000 Value	Russell 2000 Value	Russell 2000 Value	Russell 2000 Value	Russell 2000 Value	S&P 500 Value	S&P 500 Value	Russell 2000 Value	Russell 2000 Value	MSCI EAFE	MSCI Emerging Markets Growth	S&P 500 Value	MSCI EAFE	S&P 500 Value	Russell 2000 Value
31.04%	21.97%	29.89%	14.69%	26.96%	3.02%	2.49%	-11.43%	46.03%	18.33%	4.91%	20.81%	7.05%	33.79%	31.78%	19.20%	2.11%	17.32%	32.76%	5.97%
Russell 2000 Value	Barclays Corp High Yield	Russell 2000 Growth	Barclays Corp High Yield	S&P 500 Value	S&P 500 Value	MSCI Emerging Markets Growth	MSCI EAFE	Russell 2000 Value	S&P 500 Value	Russell 2000 Value	Russell 2000 Value	Russell 2000 Value	S&P 500 Value	S&P 500 Value	Russell 2000 Value	S&P 500 Value	Russell 2000 Value	S&P 500 Value	Russell 2000 Value
28.45%	16.49%	22.35%	8.70%	21.28%	4.68%	2.57%	-16.94%	38.69%	16.71%	4.71%	18.37%	6.97%	34.92%	31.67%	16.12%	-0.48%	16.36%	32.39%	6.60%
Russell 2000 Value	Barclays Corp High Yield	Russell 2000 Growth	Barclays Corp High Yield	S&P 500 Value	Russell 2000 Value	Russell 2000 Value	Russell 2000 Value	S&P 500 Value	Russell 2000 Value	Russell 2000 Value	Russell 2000 Value	Russell 2000 Value	S&P 500 Value	S&P 500 Value	Russell 2000 Value	Russell 2000 Value	Russell 2000 Value	S&P 500 Value	Russell 2000 Value
26.76%	11.35%	12.80%	1.87%	21.04%	-9.41%	4.23%	-20.49%	31.79%	14.31%	4.65%	16.79%	6.49%	37.00%	27.17%	16.10%	-2.91%	16.00%	31.99%	4.89%
Barclays Corp High Yield	Russell 2000 Growth	Barclays Corp High Yield	Russell 2000 Growth	S&P 500 Value	MSCI EAFE	S&P 500 Value	Barclays Corp High Yield	Barclays Corp High Yield	Barclays Corp High Yield	Barclays Corp High Yield	Barclays Corp High Yield	Barclays Corp High Yield	Russell 2000 Growth	Russell 2000 Growth	Russell 2000 Value	Russell 2000 Value	Barclays Corp High Yield	MSCI EAFE	Russell 2000 Value
19.18%	11.26%	12.76%	1.23%	12.73%	-14.17%	-11.71%	-20.89%	28.97%	11.13%	4.15%	13.38%	1.99%	-38.64%	28.47%	16.06%	-4.18%	16.81%	22.78%	4.22%
Barclays Agg	MSCI EAFE	Barclays Agg	Russell 2000 Value	Barclays Corp High Yield	S&P 500 Growth	S&P 500 Growth	S&P 500 Growth	S&P 500 Growth	S&P 500 Growth	Barclays Corp High Yield	Barclays Corp High Yield	Barclays Corp High Yield	S&P 500 Value	S&P 500 Value	Russell 2000 Value	Russell 2000 Value	Barclays Corp High Yield	Barclays Corp High Yield	Barclays Corp High Yield
18.46%	6.05%	9.64%	-2.65%	2.39%	-22.08%	-11.89%	-22.10%	28.68%	10.88%	4.00%	11.01%	1.87%	-39.22%	21.17%	16.06%	-5.60%	14.61%	7.44%	2.46%
MSCI EAFE	MSCI Emerging Markets	MSCI EAFE	Russell 2000 Value	Barclays Agg	Russell 2000 Growth	S&P 500 Growth	S&P 500 Growth	S&P 500 Growth	S&P 500 Growth	Barclays Corp High Yield	S&P 500 Growth	Russell 2000 Value	MSCI EAFE	Russell 2000 Value	MSCI EAFE	MSCI EAFE	Russell 2000 Value	Barclays Agg	MSCI Emerging Markets
11.21%	6.03%	1.78%	-6.45%	-0.82%	-22.43%	-12.73%	-23.69%	26.66%	6.13%	2.74%	11.01%	-1.67%	-43.39%	20.66%	7.76%	-12.14%	14.69%	-2.02%	-4.82%
MSCI Emerging Markets	Barclays Agg	MSCI Emerging Markets	MSCI Emerging Markets	Russell 2000 Value	MSCI Emerging Markets	MSCI EAFE	Russell 2000 Value	Barclays Agg	Barclays Agg	Barclays Agg	Russell 2000 Value	Russell 2000 Value	MSCI EAFE	Barclays Agg	Barclays Agg	MSCI Emerging Markets	Barclays Agg	MSCI Emerging Markets	MSCI EAFE
4.31%	3.64%	-11.69%	-26.34%	-1.49%	-30.61%	-21.44%	-30.26%	4.10%	4.94%	2.45%	4.33%	-9.78%	45.18%	5.93%	6.54%	-18.17%	4.21%	-2.27%	-4.90%

The Callan Periodic Table of Investment Returns conveys the strong case for diversification across asset classes (stocks vs. bonds), investment styles (growth vs. value), capitalizations (large vs. small), and equity markets (U.S. vs. international). The Table highlights the uncertainty inherent in all capital markets. Rankings change every year. Also noteworthy is the difference between absolute and relative performance, as returns for the top-performing asset class span a wide range over the past 20 years.

A printable copy of The Callan Periodic Table of Investment Returns is available on our website at www.callan.com

The Callan Periodic Table of Investment Returns 1995–2014

Callan's Periodic Table of Investment Returns depicts annual returns for 10 asset classes, ranked from best to worst performance for each calendar year. The asset classes are color-coded to enable easy tracking over time. We describe the well-known, industry-standard market indices that we use as proxies for each asset class in the text below.

- **Barclays Aggregate Bond Index** (formerly the Lehman Brothers Aggregate Bond Index) includes U.S. government, corporate, and mortgage-backed securities with maturities of at least one year.
- **Barclays High Yield Bond Index** measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt.
- **MSCI EAFE** is a Morgan Stanley Capital International Index that is designed to measure the performance of the developed stock markets of Europe, Australasia, and the Far East.
- **MSCI Emerging Markets** is a Morgan Stanley Capital International Index that is designed to measure the performance of equity markets in 21 emerging countries around the world.
- **Russell 2000** measures the performance of small capitalization U.S. stocks. The Russell 2000 is a market-value-weighted index of the 2,000 smallest stocks in the broad-market Russell 3000 Index. These securities are traded on the NYSE, AMEX, and NASDAQ.
- **Russell 2000 Value and Russell 2000 Growth** measure the performance of the growth and value styles of investing in small cap U.S. stocks. The indices are constructed by dividing the market capitalization of the Russell 2000 Index into Growth and Value indices, using style "factors" to make the assignment. The Value Index contains those Russell 2000 securities with a greater-than-average value orientation, while the Growth Index contains those securities with a greater-than-average growth orientation. Securities in the Value Index generally have lower price-to-book and price-earnings ratios than those in the Growth Index. The indices are market-capitalization-weighted. The constituent securities are not mutually exclusive.
- **S&P 500** measures the performance of large capitalization U.S. stocks. The S&P 500 is a market-value-weighted index of 500 stocks that are traded on the NYSE, AMEX, and NASDAQ. The weightings make each company's influence on the Index performance directly proportional to that company's market value.
- **S&P 500 Growth and S&P 500 Value** measure the performance of the growth and value styles of investing in large cap U.S. stocks. The indices are constructed by dividing the market capitalization of the S&P 500 Index into Growth and Value indices, using style "factors" to make the assignment. The Value Index contains those S&P 500 securities with a greater-than-average value orientation, while the Growth Index contains those securities with a greater-than-average growth orientation. The indices are market-capitalization-weighted. The constituent securities are not mutually exclusive.

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ECONOMIC ENVIRONMENT - Looking Pretty Good

The second half of 2014 was a very bright period for the U.S. economy after a long sluggish recovery. That growth came in spite of several major issues, including economic malaise in both Europe and Japan, the horrific Ebola crisis and Russian intransigence. Rapidly falling oil and gas prices put extra cash into the hands of consumers and made for a better Christmas. The effect of the drop in gasoline prices equated to better than a \$1,200 tax cut for the average American family and was the strongest stimulus since 2009.

Despite these issues (and in part because of them), the US economy expanded at its fastest rate since 1999. Q3 GDP grew at a 5% annual rate and the Q4 advance estimate came in at 2.6%. Growth was attributable to substantial job gains, growth in the manufacturing and service sectors, higher consumer confidence, and steady and reassuring Fed announcements. More details follow:

Real GDP growth in Q3 increased at a 5% annual rate – higher still than the prior quarter; however, the Q4 growth rate was 2.6%. A key driver was increased federal spending, particularly for defense. Personal consumption expenditures (PCE) also grew. Imports were down while exports were up, further spurring growth.

December payrolls rose by 252,000, as the unemployment rate fell to 5.6%. Just a year earlier, unemployment was at 6.7%; in fairness, part of the drop reflected those workers who stopped looking for work. For the full year, average job growth was 246,000 per month vs. 194,000 a year earlier. The only, yet important, downside was the data related to hourly wage rates. Wages have risen just 1.7% for the year, while economists had been hoping for a much stronger uptick. Without wage gains, personal consumption and consumer confidence are constrained.

Housing consultant CoreLogic reported that home prices gained 5.5% for the fiscal year ended November (latest data available). The five states with the highest year-over-year gains were Michigan (9.0%); Colorado (8.8%); Texas (8.5%); Nevada (7.9%); and North Dakota (7.9%). Nationally, however, prices remain roughly 13% below their April 2006 peak.

The Institute of Supply Management (ISM) reported continuing advances in both the manufacturing and service sectors of the economy. December marked the 19th consecutive month for manufacturing growth. The ISM Manufacturing Index registered 55.5% (greater than 50% represents expansion). Eleven manufacturing industries showed positive growth vs. seven that were contracting. The ISM Non-manufacturing Index (service index) recorded a 56.2% level – up for the 59th consecutive month. Twelve service industries experienced positive activity vs. five that contracted.

Consumer confidence grew modestly from November to December. The Consumer Confidence Index stands at 92.6. This was the highest reading in years, reflecting the consumer's favorable assessment of current economic and labor market conditions. As a result, the so-called Present Situation Index hit 98.6, its highest level since February 2008. Still, consumers remained cautious. For example, 27.7% of those surveyed still thought jobs were hard to find. Importantly, CEO confidence improved a bit in the 4th quarter.

CPI inflation remained low. Abundant agricultural and energy supplies helped to dampen retail prices. In addition, very small increases in real wages curtailed consumer demand. The December CPI actually dipped slightly (□0.6). For the year as a whole, consumer prices only rose 0.8%.

Certain industrial metals including nickel, zinc, and aluminum were the only commodities in the S&P/Goldman Sachs Commodity Index to advance in 2014 and the combined index slid 33.1% for the year. Most commodities fell dramatically. The steepest declines were in the energy sector, which fell an amazing 43%!

The Fed made good on its promise to end its bond purchasing program (QE3), designed to help boost lending activity and thereby strengthen the economy.

The Board Thanks Dahab & Associates, the source of this review.

BOND MARKET - Investors Sought Safety in US Treasuries

Investment grade bonds reversed course from the lackluster 3rd quarter. Still, the fourth quarter turnaround was generally less dramatic than that of the stock market. The Barclays Aggregate Index advanced 1.8%. Treasuries, corporate debt, and mortgage-backed debt performed in line with the aggregate. Asset-backed securities (ABS) were up a fractional 0.6%, while commercial mortgage debt (CMBS) posted +1.3%.

The long maturity Treasury sector was the clear winner as Treasuries with maturities of 20-years and longer turned in an astounding 9.4%.

The Aggregate Index was well into positive territory for the full year, returning 6.0%. This performance beat both 2012 returns (+4.2%) and those of 2013 (-2.0%).

High yield/junk bonds disappointed investors again, as the Barclays High Yield Corporate Index was down 1% for the quarter. Those investors who took on more credit risk by buying lower credit ratings suffered more. BA-rated names, the highest grade of junk bonds, were the best performers, gaining 0.9%, while the lowest-rated CAA-D issues plunged almost 24%. Energy companies that had issued junk bonds were an important part of this market. These energy issues fell a whopping 10.6% due to falling oil prices, thereby hammering the entire junk bond market! For the year, the return for the High Yield Index was a modestly positive 2.5%.

Combined, the G-6 (G-7 x-US) Global Treasuries lost 3.3%. Canada, France, Germany, and Italy sovereign returns were closely packed, all falling between 1% and 2%. Japan's government debt fell more (-6.4%). The UK was the only country to gain ground (+2.6%). Full year return for the G-6 index was -3.5%.

DOMESTIC EQUITIES - Positive Quarter and Double Digit Advances for the Year

All of the popular market indices advanced in Q4. The bellwether S&P 500 and DJIA climbed 4.9% and 5.2%, respectively. The tech-laden NASDAQ gained a modestly higher 5.7%. Small caps experienced a strong turnaround, as the Russell 2000 Index added 9.7% and its growth stock component pushed slightly above 10%. Unlike earlier quarters, growth and value stocks marched up together, whether they were large-cap, mid-cap or small-cap. The one exception was in the liquid real estate market (REITs). That sector, viewed as part of the small-cap value space, rocketed up 12.9% in line with the economy's increasing strength. The overall domestic market, represented by the Russell 3000 Index, advanced 5.2%.

For the full year, large and mid-cap stocks gained double-digit returns. The Russell 1000 (large caps) and Russell Midcap Indices each added a healthy 13.2%. However, small-cap stocks trailed considerably, with the Russell 2000 Index posting a much lower 4.9%. Again, real estate was the sector that dazzled investors as the NAREIT Index shot up 28%.

S&P sector returns varied widely. At the top was the small-sized transportation sector where companies earned an average of 13.9%, a clear indicator of economic strength. Consumer service also performed well (+11.8%). Autos and other manufacturing helped propel consumer durables up 10.9%. Financials and tech companies (excluding computer technology) each earned more than 8%. Utilities, which were thought to be fully priced, climbed 6.7% more. Consumer non-durables were mixed, but collectively added 5.9%. Finally, it's no surprise that energy stock prices fell dramatically. The sector dropped 9.1%, after an 8.6% third quarter decline, reflecting pummeled oil prices. While investors grieved, consumers celebrated their good fortune as they filled up for the holiday travel season.

As of year-end, half of the S&P components saw dividend yields of 2% or less and a trailing year price/earnings ratio of 20x or greater. One could argue that the market has become fully priced.

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Retirees

Remember its tax time...

If you need to update your tax
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CHOOSING A TAX PREPARER

IRS has provided a few tips when using a tax preparer:

- ✦ Check to be sure the preparer has an IRS Preparer Tax Identification Number (PTIN).
- ✦ Ask the tax preparer if he has a professional credential (enrolled agent, certified public accountant, or attorney), belongs to a professional organization or attended continuing education classes.
- ✦ Check on the service fee upfront. Avoid preparers who base their fee on a percentage of your refund or those who say they can get larger refunds than others can.
- ✦ Always make sure any refund due is sent to you or deposited into your bank account.
- ✦ Make sure your preparer offers IRS e-file, and ask that your return be submitted to IRS electronically.
- ✦ Make sure the preparer will be available in case questions come up about your tax return.
- ✦ Provide records and receipts.
- ✦ Never sign a blank return.
- ✦ Review your return before signing.
- ✦ Ensure the preparer signs and includes his PTIN. Paid preparers must sign returns and include their PTIN as required by law.
- ✦ Report abusive tax preparers to the IRS.